HOUSING MARKET REPORT

Autumn 2017 Edition

Victoria overview

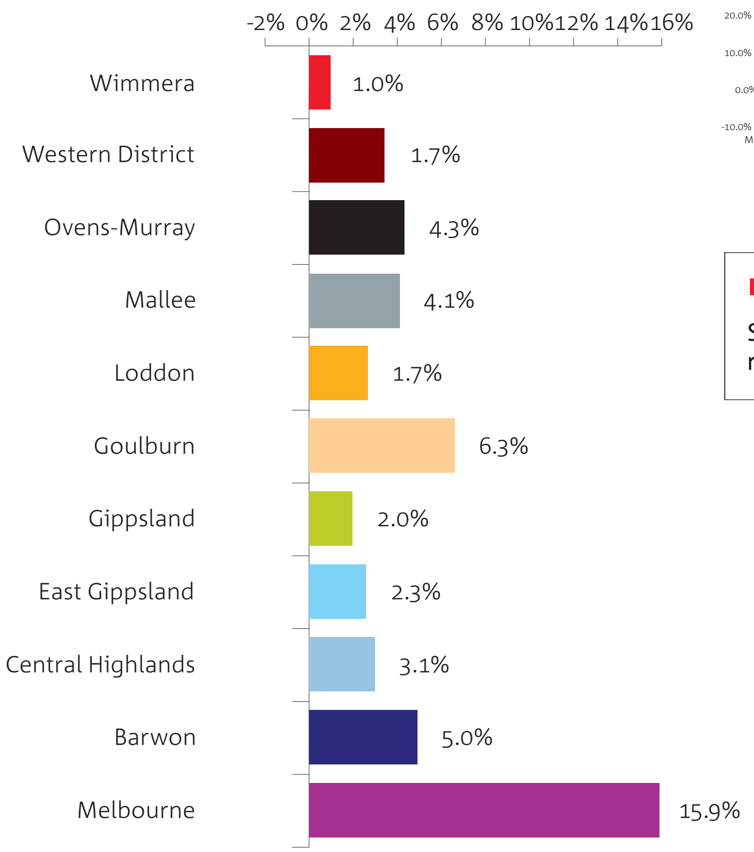
CoreLogic's view:

Melbourne home values are showing a substantial rise, increasing by 15.9% over the twelve months to March 2017. The strong headline results hide a widening gap between the performance of houses and units, with house values increasing 17.2% over the past twelve months while unit values have recorded a modest 5.2% capital gain. The different capital gain profile can likely be attributed to growing concerns about the level of unit supply across Melbourne. While value growth has generally been strong across Melbourne and some regions of the state, rental conditions have been relatively soft. The net result of values shifting almost 16% higher over the past year while weekly rents have risen by less than 3% is that rental yields have been substantially compressed. The typical Melbourne house is now recording a gross rental yield of 2.7% while unit yields are moderately higher at 4.0%.

Despite the high supply level for units across key inner city precincts, population growth across Victoria is the fastest of any state which is underpinning housing demand. Additionally, jobs growth across the state has been strong and affordability constraints are substantially lower than what is evident in Sydney.

The regional markets of Victoria have recorded softer growth conditions compared with Melbourne. Overall, the broad 'rest of state' region of Victoria has recorded a 1.7% rise in house values over the past twelve months, with house values in Goulburn (6.3%) and Barwon (5.0%) rising the fastest of any regional Victorian areas.

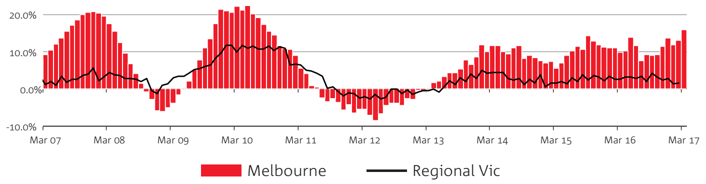
Annual change in home values over past year*



*Data for homes in capital cities, houses in regional areas. Data to Mar-17 for capital cities, Feb-17 for regional areas

Source: CoreLogic

Annual change in home values, Melbourne and Regional Vic



Important information

See next page for details regarding source data used in this report.

NAB's view:

The Melbourne housing market continues to perform well, led by detached homes. Supply concerns weigh on apartments, but prices are holding up.

Melbourne property price growth gained momentum from mid-2016, following additional monetary policy easing by the RBA. However, a clear gap has emerged in quality adjusted prices between detached houses and units. This divergence likely reflects mounting concerns of oversupply, namely in the CBD and inner city apartment markets, particularly as credit conditions are tightened for investors and foreign buyers.

Indeed, the **NAB Residential Property Survey** suggests that foreign demand for new developments is well down from early peaks, albeit holding at elevated levels (above all other states). However, that is counter to the Survey's read on market sentiment, which jumped in the first quarter of 2017 to its highest level since the Survey began. Additionally, lower vacancy rates and solid auction clearance rates suggest that oversupply is not an issue for the broader market just yet.

Meanwhile, demand fundamentals are solid with Victoria seeing the fastest rate of population growth in the country, while its economy is also performing well (although wages growth has been disappointing). Owner-occupier mortgage approvals have been steadily improving, while investor loan approvals have picked-up again – although in the context of very high levels of household leverage, this runs the risk of prompting a more severe response from regulators to contain the risks (beyond measures already taken). Very high levels of household debt might also limit purchasing power in the property market.

The Melbourne property market is performing well, although over-supply concerns drive a wedge between house and unit prices. This divergence is expected to continue.

Despite the risks for new apartment supply and prudential tightening, NAB is forecasting another good year for Melbourne property prices in 2017. House price are forecast to rise 10.8% in 2017 (revised from 5.6%), before easing to 5.5% in 2018. The divergence with unit prices is expected to continue, however, with unit prices forecast to rise 5% in 2017 (revised from -2.7%), before contracting by 2.4% in 2018 as supply additions and tougher credit conditions begin to bite.

This report is prepared by RPData Pty Ltd ("trading as CoreLogic Asia Pacific") ABN 67 087 759 171 and National Australia Bank Ltd ABN 12 004 044 937
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Important information about this report

The information on the white background (headed CoreLogic's view) is about the housing market in the 12-month period to March 2017 for information about capital cities and to February 2017 for information about regional areas.

It was provided by RP Data Pty Ltd, which trades as CoreLogic Asia Pacific, but is referred to in this report as CoreLogic.

The information on the grey background (headed NAB's view) is provided by NAB Group Economics, taking into account data sourced until March 2017. It's our economists' view about the national capital city house and unit price growth over the next 9 months to December 2017.

NAB's view takes into consideration the March 2017 NAB Residential Property Survey of property market professionals. The survey asked participants to give their views on where they think house prices are expected to move.

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The NAB Residential Property Survey referenced in this report consists of extracts from data obtained by NAB from a March 2017 survey of property professionals. This reflects the surveyed property professionals' views about what they think will happen to the housing market in Australia in a 24 month period up to March 2019. The views in the survey do not necessarily reflect NAB's views except where expressly called out in this report.